

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES

Overview

Current Year Performance

On an overall basis, revenues and expenditures are currently performing within expected levels and are tracking to meet budgeted estimates. The economically sensitive General Fund revenue categories generally ended 2006-2007 at or slightly above estimated levels, which will help provide a buffer if the slowdown in 2007-2008 is more severe than anticipated.

Expenditures are tracking within estimated levels through December. Cost control measures remain in place, such as the hiring freeze, and have generated significant savings in recent years. If current expenditure trends continue, there are a number of departments that would end 2007-2008 with savings, as was the case in 2006-2007.

On an overall basis, it is anticipated that approximately \$25 million in excess revenue and expenditure savings will be available by year-end. This was the Ending Fund Balance figure that was used in developing the 2009-2013 Preliminary General Fund Forecast that was issued in November 2007.

Comparison to Prior Year

General Fund revenues and transfers through December totaled \$287.5 million, or 35.5% of budgeted estimate. This amount was \$9.0 million, or 3.0%, below the amount received last year at this time. This lower collection level, however, was the result of timing differences between collections in the two years. For example, amounts for Property Tax that were booked in December in 2006-2007 were not

booked until January in 2007-2008. After taking these timing differences into account, however, current collections are running ahead of both the prior year and the current budgeted estimates. A notable exception to this trend is the lower than projected revenues in the Building and Public Works Development Fee Programs.

Recommended Adjustments

Minimal revenue adjustments are recommended in this report that result in a net reduction of \$779,820. Additional adjustments may be brought forward at year-end based on the collection trends at that time.

City Council actions are recommended to account for additional new revenue of \$1.9 million from grant programs and reimbursement for services, available to fund additional related expenditures, and to decrease development-related estimates by \$2.7 million, based on current collection trends.

The overall impacts of the recommended actions in the General Fund are summarized in the following chart:

Category	\$ in thousands
Transfers and Reimbursements	\$ 977
Revenue from the State of California	576
Other Revenue	298
Revenue from the Federal Government	26
Revenue from Local Agencies	5
Departmental Charges	(675)
Licenses and Permits	(1,987)
Total	<u>(\$ 780)</u>

2007-2008
MID-YEAR BUDGET REVIEW
Section I

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

Overview (Cont'd.)

Recommended Adjustments (Cont'd.)

The grants and reimbursements include an increase of \$977,000 to the Transfers and Reimbursement category to reflect the increase in the Airport reimbursement for additional Police overtime costs associated with the "Orange Alert" level at the Airport. Other grants include the Internet Crimes Against Children Task Force grant from the State (\$250,000), an Anti-Drug Abuse grant from the State (\$132,552), and reimbursement from other local cities for a Multi-Agency Capital Project Benchmarking Study (\$132,000).

Downward adjustments to the Building (\$2.0 million) and Public Works (\$675,000) Development Fee Programs are recommended based on current collection trends. The projected gap between revenues and expenditures in these Fee Programs is

recommended to be addressed by a combination of downward revenue revisions, expenditure reductions, and the use of portions of the development fee program reserves.

If overall General Fund collections were to continue at current rates, it is anticipated that additional upward adjustments will be possible by year-end. If so, these actions will be brought forward for Council consideration at the end of the year. The current collection trends will also be factored into the final 2009-2013 General Fund Forecast scheduled to be released in February 2008.

General Fund Revenue by Category

The following discussion highlights overall General Fund activities through December by revenue category.

PROPERTY TAX

Revenue Status

2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$198,154,000	\$29,021,036	14.6%	28.3%	\$0

The Property Tax category consists of Secured Property Tax, Unsecured Property Tax, SB 813 Property Tax (retroactive collections back to the

point of sale for reassessments of value due to property resale); and Homeowners Property Tax Relief.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

PROPERTY TAX
(CONT'D.)

The 2007-2008 **Current Secured Property Tax** budget estimate is \$181.4 million. Through December, actual Current Secured Property Tax collections of \$17.2 million were significantly below the prior year collection level of \$42.7 million. This is, however, the result of a timing issue related to the booking of Property Tax receipts last year, when compared to the current year.

Based on information from the County of Santa Clara Controller-Treasurer's Office, the Secured Property Tax roll is expected to reach \$182.8 million, which is almost \$1.5 million above the 2007-2008 budget estimate. This would result in overall growth of approximately 7.5% over the 2006-2007 collection level.

The 2007-2008 **Current and Prior Unsecured Property Taxes** budget estimate is \$10.7 million, which is virtually unchanged from the actual collections in 2006-2007. The largest payment for the Unsecured Property Tax category is received in October of each year. Although receipts to date of \$10.3 million are tracking ahead of the budgeted level, the latest estimates from the County of Santa Clara project that the Unsecured Receipts will end the year at approximately the budgeted estimate. County staff pointed out that there were some large refunds in the Unsecured category between October and November.

Year-to-date **Current SB 813 Property Tax** receipts (retroactive collections back to the point of sale for reassessments of value due to property resales) of \$1.3 million are currently

tracking below the prior year level of \$1.4 million. The year-to-date receipts, however, reflect one less payment than was booked last year through December. Factoring out this timing difference, collections would actually exceed the prior year collection level.

This collection pattern is unusual given the large declines in the number of real estate transactions that have occurred. From July through December 2007, the number of residential property sales declined 44% when compared to the same period last year. While no drop is currently reflected in year-to-date receipts, it is anticipated that collections will fall significantly in this area during the remainder of the year based on the slowdown in the housing market. Collections in the next several months will provide a much better indicator of receipts in this category since approximately 80% of the revenue in this category is typically collected in the second half of the year.

A significant drop-off in this category was anticipated when the 2007-2008 Adopted Budget was developed based on the assumption that real estate sales would continue to decline through this fiscal year. In 2006-2007, receipts fell 20.7% in this category. Receipts can fall an additional 38% from the \$8.0 million collected in 2006-2007 and still meet the 2007-2008 budget estimate of \$5.0 million.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

SALES TAX

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$152,636,000	\$29,639,282	19.4%	25.1%	\$0

The Sales Tax category consists of General Sales Tax and Proposition 172 Sales Tax.

The 2007-2008 budget estimate for **General Sales Tax** is \$147.9 million. To meet this estimate, growth of 1.8% over the 2006-2007 collection level is necessary. It is currently anticipated that this estimate will be met based on the first quarterly Sales Tax data as well as information on the 2007-2008 Sales Tax payment from the State associated with the "triple flip". Growth of approximately 1% is needed through the remaining three quarters to meet the General Sales Tax estimate.

Information on the first quarter 2007-2008 General Sales Tax receipts was received in December. These receipts represented activity for July through September, and in total were up 11.7% from the same quarter in the prior year. This growth, however, is misleading since this most recent quarter is being compared to the first quarter of 2006-2007 in which a large one-time negative adjustment was processed that resulted in a drop of 9.0% in that quarter. When the 2007-2008 budget estimate was developed, the revenue estimate for the first quarter was adjusted upwards based on the assumption that

the one-time negative adjustment from 2006-2007 would not impact 2007-2008.

Factoring out the impact of the one-time correction, growth of 1.5% was experienced in the first quarter of 2007-2008 when compared to the same quarter in the previous year. Over a two-year period, growth in this quarter has only been 1.7%.

Additional data on the performance in the first quarter of 2007-2008 has also been received from the City's Sales Tax consultant, MuniServices Company. This data showed a slight decline of 1.0% on an economic basis when compared to the same quarter in the prior year. The economic growth data is considered to be a more accurate measure of the actual sales tax activity in San José for a particular period. This growth analysis measures sales tax receipts, excluding state and county pools and adjusts for anomalies, payments to prior periods, and late payments.

On an economic basis, the slight decline in the most recent quarter was the result of decreases of 7.8% in the Transportation sector and 3.4% in the Construction sector. These decreases were

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

SALES TAX
(CONT'D.)

partially offset by growth of 2.2% in the Business-to-Business sector, 1.5% in the General Retail category, and 3.3% in Food Products.

General Retail remains the largest sector in San José representing 27% of the sales tax activity, followed by Business to Business (24.5%), Transportation (22.8%), Food Products (14.3%), Construction (10.8%), and Miscellaneous (0.6%).

Jurisdictions across California experienced slowdowns or even declines in sales tax revenue

during the most recent quarter. The Bay Area experienced growth of 1.1%, while Northern California declined 2.1%. Southern California and the State as a whole also experienced declines of 3.3% and 2.8%, respectively.

The 2007-2008 **Proposition 172 Half-Cent Sales Tax** budget estimate is \$4.7 million, which is 2.5% above the actual 2006-2007 receipts. Receipts through December of \$1.9 million were 8.6% below the prior year. It is expected that collections in this category will fall below the budgeted estimate based on current collection trends.

TRANSIENT OCCUPANCY TAX

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$8,988,000	\$3,704,788	41.2%	37.0%	\$0

The 2007-2008 budget estimate for the General Fund **Transient Occupancy Tax** (TOT) allocation (4.0% of the 10.0% total tax) is \$9.0 million. When the Adopted Budget was developed, it was assumed that growth of 7% over the 2006-2007 year-end estimate would be achieved in 2007-2008. Because collections in 2006-2007 exceeded projections, growth of just

over 4% is needed to meet the 2007-2008 budgeted estimate.

Through December, Transient Occupancy Tax collections of \$3.7 million were tracking 16.5% above the prior year collection level of \$3.2 million for the same period. This increase reflects year-end accounting adjustments as well as actual growth in collections.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

TRANSIENT OCCUPANCY TAX
(CONT'D.)

Occupancy rates for the first six months of the fiscal year averaged 58.6%, which is higher than last year's average of 57.4%. Room rates have also increased from an average of \$125 to \$138.

If current collection trends continue, the 2007-2008 budget estimate will be exceeded at year-end. Given the volatility of this category, however, no adjustment is recommended at this time. Staff will continue to closely monitor this revenue source.

FRANCHISE FEES

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$39,032,000	\$16,150,679	41.4%	37.0%	\$0

Franchise Fees contains the following categories: **Electricity, Gas, Commercial Solid Waste, Cable Television, City-Generated Vehicle Tow and Water.**

The annual reconciliation report from Pacific Gas and Electric (PG&E) concerning **Electricity** and **Gas** gross receipts and the resulting amount of franchise fees owed for calendar year 2007 will not be received until April, and, as a result, firm conclusions cannot be drawn concerning the status of these two revenue accounts until that report is received. Based on the Gas and Electric Utility Tax collection trends, however, it is estimated that Electricity Franchise Fees estimate of \$15.1

million and the Gas Franchise Fee estimate of \$5.3 million will be met.

Commercial Solid Waste (CSW) Franchise Fees collections through December of \$4.5 million were tracking within estimated levels. It is anticipated that the budgeted estimate of \$11.6 million will be met or slightly exceeded.

Cable Television Franchise Fees of \$1.8 million represent only one quarter's collection through December, due to the typical quarter lag in receipts. Year-to-date receipts reflect a 19.9% increase over the prior year, and fees from this category are expected to exceed the budgeted estimate of \$5.5 million by approximately \$1 million.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

FRANCHISE FEES
(CONT'D.)

City-Generated Vehicle Tow Fees of \$0.5 million were tracking at or slightly below estimated levels and are expected to come close to the 2007-2008 budget estimate of \$1.3 million by year-end.

Water Franchise Fees revenue through December of \$100,000 was also tracking within estimated levels and is expected to meet the 2007-2008 budget estimate of \$224,000.

UTILITY TAX

Revenue Status

2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$79,141,000	\$33,206,587	42.0%	37.1%	\$0

Utility Tax contains the following categories:
Electric, Gas, Water and Telephone.

Electric Utility Tax receipts of \$17.3 million were tracking well above the prior year level of \$14.5 million due primarily to the timing differences in the booking of payments. Based on current collection trends, receipts are expected to meet or slightly exceed the budget estimate of \$37.0 million by year-end. Growth of less than 1% over the prior year collection level is needed to meet this estimate.

Gas Utility Tax receipts of \$3.2 million through December were tracking above the prior year level of \$2.1 million due to the timing of payments and higher actual collections. The 2007-2008 Adopted Budget estimate of \$9.7 million assumed no growth in this category.

While Gas Utility Tax collections were strong through the first half of the year, it is still too early to accurately project year-end performance. Collections in the next several months will provide a much better indicator of receipts in this category since over 70% of the revenue in this category is typically collected in the second half of the year. Collections in this category may also be impacted by the 10/20 Plus Winter Gas Savings Program offered by PG&E that will give customers a credit of up to 20% on their March or April bill if they reduce their natural gas usage in January and February. This is the same program that was offered last year.

Water Utility Tax collections of \$3.6 million through December were tracking above the prior year level of \$3.3 million. Collections are

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

UTILITY TAX
(CONT'D.)

currently on target to slightly exceed the budgeted estimate of \$7.7 million by year-end. It should be noted, however, that this category is always subject to fluctuations related to the amount of precipitation received, particularly in the spring. Consumption levels over the next several months will determine if adjustments to the revenue estimate will be appropriate before the end of the year.

Telephone Utility Taxes receipts of \$9.0 million through December were tracking slightly below the prior year level of \$9.4 million primarily as a result of timing differences in the booking of payments. It is currently anticipated that receipts will meet or slightly exceed the budgeted estimate of \$24.7 million by year-end.

LICENSES AND PERMITS

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$79,486,330	\$40,800,685	51.3%	53.3%	(\$1,987,197)

Licenses and Permits include the following six major groups of revenue: **Business Tax, Cardroom Business Tax, Disposal Facility Tax, Building Permits, Fire Permits and Miscellaneous Other Licenses and Permits.**

Business Tax – collections of \$9.6 million through December were tracking at the prior year level and are expected to meet or slightly exceed the budgeted estimate of \$12.6 million by year-end.

Cardroom Business Tax – collections of \$5.0 million through December were tracking slightly below the prior year level of \$5.2 million. Based on 2006-2007 collections of

\$12.5 million, 2005-2006 collections of \$11.2 million, and actual performance through December, this revenue category is expected to meet the budget estimate of \$11.8 million by year-end.

Disposal Facility Tax (DFT) – Disposal Facility Tax revenue of \$5.4 million through December is tracking slightly below the \$5.7 million collected through the same period last year but is currently expected to meet the budget estimate of \$15.0 million by year-end.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

LICENSES AND PERMITS
(CONT'D.)

Building Permits – Building Permit receipts through December totaled \$10.1 million, or 40.5% of the adopted estimate of \$25.0 million. This collection level is 4.4% below the prior year level of \$10.6 million. The 2007-2008 estimate was built assuming a continuation of the activity levels projected for 2006-2007, with a fee increase of 5%. However, since actual 2006-2007 receipts of \$21.9 million ended the year below estimated levels, growth of 14.4% would actually be needed to meet the 2007-2008 estimate.

In contrast with the budgeted estimates, however, collections through December are actually tracking well below (16%) projected levels. Revenues in all but building plan check are tracking significantly below expectations and could end the year below projected levels by as much as \$2.5 million. In December, residential building permit activity dropped to levels not seen since late 2001 with permits issued for 37 units. Through December, a total of 606 residential units have been permitted compared to last year's 1,650 units. Commercial activity in December was very high. Through December, construction valuation for commercial development was \$254.6 million compared to \$96.3 million in 2006-2007. For December, industrial activity (\$3.0 million) dipped to its lowest level in three and a half years. Through December, cumulative construction valuation was \$148.7 million compared to \$109 million in 2006-2007. Total construction valuation during calendar year 2007 rose to \$977 million, a 15% increase from the prior year and a four-year high. This

increase was due to a surge in non-residential activity in the final quarter, stemming primarily from some office construction and renovation projects. Offsetting this increase was a fall-off in residential development. As a result, non-residential valuation outpaced residential valuation by a 2-1 margin. The historical norm is a 50-50 split.

Since the tremendous development boom ended in 2000-2001, there had been a shift from commercial and industrial construction activity (where valuations are higher relative to corresponding service demand) toward residential construction activity. In 2003, the Building Program implemented a new fee structure for residential projects. It was determined that the long-standing valuation-based method of calculating permit and plan check fees was less precise in matching fees and the cost of providing service. The commercial and industrial sectors fee structure was not changed at that time because of a lack of activity in those areas in order to complete the analysis. For 2006-2007, analysis was completed and a new fee structure based on time was implemented for commercial, industrial and mixed use projects. It appears that further refinements may be necessary as activity is once again strong in the commercial and industrial sectors but yet revenues are not being collected at levels necessary to sustain the program. The Budget Office has been working with the Planning, Building and Code Enforcement Department to develop a strategy to provide stability within this program.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

LICENSES AND PERMITS
(CONT'D.)

Included in this report is a recommended downward adjustment of \$2.0 million to the budgeted revenue estimate. A combination of a \$1.0 million reduction to the Building Fee Reserve and a personal services reduction of \$1.0 million, which includes the elimination of six vacant positions, is recommended to offset this shortfall. Staff will continue to work to control expenditures to minimize any gap between revenue and expenditures in this fee program and achieve the Council-directed cost-recovery status of this program.

Fire Permits – collections through December of \$5.1 million were tracking slightly above estimated levels and well above (51.7%) the prior year receipts of \$3.3 million. Over half of the growth from the prior year was, however, the result of accounting differences and an error in the categorization of miscellaneous revenues. In 2006-2007, receipts were understated because approximately \$700,000 was not deferred from 2005-2006 to 2006-2007. After adjusting for deferrals, Fire Permit revenues were tracking approximately 25% above 2006-2007 levels. Additionally, miscellaneous revenues of \$304,000 were incorrectly booked to Fire Permits and will be reallocated. These include legal settlements totaling \$271,000 and State reimbursements totaling \$32,385. Factoring out these revenues, Fire Permits were tracking 17.7% above 2006-2007 levels.

Development-related collections of \$2.6 million were 31.5% above the \$2.0 million received through December 2006, due to higher than anticipated revenue in non-renewable permits,

inspections, and plan check fees. Overall development activity is currently exceeding budgeted revenue estimates primarily due to increased activity in commercial and industrial development, despite the slowdown in residential development. Development-related revenues are expected to end the year above budgeted levels.

Although non-development permit revenues through December of \$2.2 million were tracking 4.6% above prior year adjusted receipts, annual renewable permit receipts are expected to end the year at lower than budgeted levels. In anticipation of this lower collection level, the Fire Department will institute expenditure control measures for overtime and non-personal/equipment items to ensure that expenditures for non-development activities align more closely to the year-end estimated revenues.

The Budget Office and Fire Department will continue to closely monitor receipts and bring forward budget actions for Council consideration in the future, if necessary.

Miscellaneous Other Licenses and Permits – Revenues are tracking as anticipated, with the exception of the Multiple Housing Permits, which are projected to end the year \$100,000 below the budget estimate of \$3.0 million. An upward adjustment of \$12,803 is recommended in this category to recognize additional gated event revenue received from the Gay Pride Festival and the Jazz Festival. These funds are recommended to be allocated to the Parades, Festivals, and Celebration Grants Program.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

FINES, FORFEITURES, AND PENALTIES

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$14,707,600	\$7,334,648	49.9%	47.2%	\$0

Fines, Forfeitures, and Penalties include the following groups of revenue: **Parking Fines**, the City's share of **Vehicle Code Fines**, **Administrative Citation Fines and Penalties**, and **Cardroom** and **Business Tax Penalties**.

Through December, this category has generated \$7.3 million, an increase of 10.7% from last year. Based on collections to date and historical collection trends, receipts are expected to meet or slightly exceed the budgeted estimate by year-end.

Over half of the revenue in this category is generated from Parking Fines. Through December, Parking Fines totaled \$3.7 million, or 45.3% of the budgeted estimate of \$8.2 million. It is currently projected that collections in this area will be close to the budgeted estimate by year-end.

Collections are tracking higher than budgeted in the vehicle code fines and business tax penalties sub-categories.

REVENUE FROM THE USE OF MONEY AND PROPERTY

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$13,909,080	\$7,594,793	54.6%	40.1%	\$0

The largest source of revenue in this category is **General Fund Interest Earnings**. This category also includes interest earnings from several other funds, interest on senior staff

loans, and rental revenue generated from City property.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE USE OF MONEY AND PROPERTY
(CONT'D.)

Overall, receipts of \$7.6 million through December were up 21.1% from the prior year level of \$6.3 million, primarily reflecting higher cash balances. This category, however, is now beginning to be impacted by falling interest earning rates. Due to the strong collections in the first half of the fiscal year and the higher than anticipated cash balances, overall revenues in this category are still expected to meet or slightly exceed the budgeted estimate by year-end.

The budget estimate for the General Fund interest earnings was developed assuming an

average cash balance of \$210 million and an average interest rate of 4.4%. Through December, the average interest yield of 4.0% was tracking slightly below the budgeted estimate. However, the average cash balance of \$254.5 million significantly exceeded the budgeted estimate, resulting in higher overall collections.

The interest earnings from several other funds are booked into the General Fund. Collections from these funds are also tracking higher than anticipated due to higher cash balances.

REVENUE FROM LOCAL AGENCIES

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$49,365,361	\$18,285,643	37.0%	35.6%	\$4,993

The largest entities in this category are: the **Redevelopment Agency**, the **Water Pollution Control Plant** and **Municipal Water System**, and the **Central Fire District**.

Redevelopment Agency reimbursements through December totaled \$3.6 million, which is 21.6% of the budgeted estimate of \$16.5 million. Collections are currently tracking below anticipated levels because the \$4.0 million in reimbursements for City projects to

help support the costs of San José BEST was not received through December. This payment is expected to be received in January, which will bring collections closer in line with expectations. It is anticipated that all General Fund costs incurred on behalf of the Redevelopment Agency will be reimbursed by year-end.

The Redevelopment Agency also reimburses the City for the Convention Center lease payment

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM LOCAL AGENCIES
(CONT'D.)

budgeted at \$14.0 million for 2007-2008. Through December, \$10.1 million has been received. It is anticipated that the full amount of the estimate will be received by year-end

Payments are also received from the **Water Pollution Control Plant** and the **Municipal Water System** enterprise funds in lieu of various taxes and fees, which the City would receive if these operations were privately owned. While no payments have been received to date, it is anticipated that the actual payments will be close to the budgeted estimate of \$4.3 million.

Through December, the payments of \$2.0 million from the **Central Fire District** for fire services provided by the City are tracking slightly lower than projected. Based on 2006-2007 actual collections and projected receipts for this year, performance in this category may fall below the budgeted estimate of \$6.5 million.

Overall, the **Other Reimbursements** from various agencies are typically tracking within estimated levels through December.

The following adjustments are recommended in this report to the Revenue from Local Agencies category:

- Increase of \$53,540 to recognize funding from the County of Santa Clara for school crossing guard services at various County crossing sites for this fiscal year.

- Increase of \$45,993 to recognize additional funding from the County of Santa Clara for the Senior Nutrition Program. This increase provides various cost-of-living adjustments for existing services, impacting various nutrition sites.
- Increase of \$107,877 to recognize additional revenue from the Happy Hollow Corporation to support a temporary Marketing/Public Outreach Representative position.
- Increase of \$95,625 to recognize funding from the Berryessa Union School District to expand the after school program at Summerdale Elementary School.
- Decrease of \$298,042 to reflect the write-off of revenue from the Silicon Valley Regional Interoperability Project that had been anticipated to provide a portion of the matching funds for the 2003-2004 COPS Interoperable Communications Grant. These funds, which had been initially recognized in 2003-2004 when the grant was approved, will not be received by the City. It was determined that this was not an eligible source of matching funds. The Communications Construction and Conveyance Tax Fund has now been used to provide the necessary matching funds for the project.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE STATE OF CALIFORNIA

Revenue Status				
2007-2008		2006-2007	2007-2008	
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$10,394,495	\$8,532,902	82.1%	61.6%	\$576,272

The major State revenues include **Motor Vehicle In-Lieu Fees**, **Airplane In-Lieu Fees**, and **State Grants**.

Motor Vehicle In-Lieu Fee (VLF) revenue through December totaled \$2.1 million, which represents a 33.5% decrease from the prior year collection level of \$3.2 million. Collections in the prior year were unusually high due to one-time payments from the State associated with prior year collections in 2004-2005 and 2006-2007 that totaled over \$700,000. With the current economic conditions, growth in this category is not anticipated through the remainder of the year. It is currently projected that collections may fall below the budgeted estimate of \$6.4 million by approximately \$500,000.

Airplane In-Lieu Fees of \$4.8 million through December have already exceeded the budgeted estimate of \$1.5 million and the prior year collection level of \$2.1 million. This collection level is far above historical levels and reflects a significant effort by the County of Santa Clara to audit these payments and make necessary adjustments.

The **State Grants** category includes the SB 358 Public Library Grant (\$371,000), the Waste Tire Enforcement Grant (\$231,000), and various other miscellaneous grants. The SB 358 Public Library Grant was adjusted downwards from \$550,000 to \$371,000 as part of the 2006-2007 Annual Report actions based on updated information from the State. It is anticipated that the remaining grants will be received as budgeted.

The following adjustments are recommended in this report to the Revenue from the State category. These grant revenues and the associated expenditures are described in Section III of this document.

- Increase of \$250,000 to recognize an Internet Crimes Against Children Task Force grant for the 2008 calendar year.
- Increase of \$132,552 to recognize an Anti-Drug Abuse grant from the Governor's Office of Emergency Services that will be distributed by the County of Santa Clara.
- Increase of \$91,814 to recognize a Sobriety Checkpoint grant from the State Office of Traffic Safety.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE STATE OF CALIFORNIA
(CONT'D.)

- Increase of \$29,433 to recognize grant funding for the Local Enforcement Agency program to be used for landfill enforcement activities.
- Increase of \$28,996 to recognize funding for homeland security preparedness that will be used for training and training materials on the use of personal protective equipment.
- Increase of \$18,728 to recognize funding from the State Homeland Security Grant Program to support the San Jose Prepared! Program.
- Increase of \$16,737 to recognize funding from the State Office of Traffic Safety to support the Avoid the 13 Checkpoints.
- Increase of \$5,000 to recognize funding for addressing work performed for the State of California Local Update of Census Address Program.
- Increase of \$2,500 to recognize grant funding received under the California Cultural Crossroads Grant Program.
- Increase of \$512 to the Airplane-in-Lieu revenue estimate to fund the rebudget of the Alcoholic Beverage Control Grant.

REVENUE FROM THE FEDERAL GOVERNMENT

Revenue Status				
2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$10,445,699	\$2,004,716	19.2%	11.9%	\$26,112

Almost all of the revenue in this category is received from federal grant programs. It is currently assumed that the budgeted grant proceeds will be collected by the end of the year according to the grant payment schedules that are in effect.

The largest grants in this category include the following: Bay Area Super Urban Area Security Initiative (SUASI) Grant (\$4.3 million); Community Oriented Policing Services (COPS) Interoperable Communications Grant (\$3.8 million); Urban Area Security Initiative (UASI) Grant (\$448,000); 2006 Bureau of Justice Grant

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

REVENUE FROM THE FEDERAL GOVERNMENT
(CONT'D.)

to fund a mobile street unit and other services (\$395,000); Comprehensive Approaches to Sex Offender Management (\$250,000); Metropolitan Medical Strike Team Grant (\$225,000); and Internet Crimes Against Children (\$224,000).

The following adjustments are recommended to the Revenue from the Federal Government category to recognize changes in grant funding:

- Increase of \$10,800 to recognize additional funding for the Senior Companion Program

to provide a program for frail homebound seniors.

- Increase of \$10,000 to recognize funding from the U.S. Department of Energy for a Clean Cities Grant to provide funding for alternative fuel vehicles education.
- Increase of \$5,312 to recognize additional funding from the Bay Area Super Urban Area Security Initiative to provide funding for staff to attend a Law Enforcement Intelligence Unit (LEIU) training course.

DEPARTMENTAL CHARGES

Revenue Status				
2007-2008		2006-2007		2007-2008
Budget Estimate	Y.T.D. Actual	% of Estimate	% of Actual	Proposed Changes
\$30,853,518	\$15,596,319	50.5%	48.6%	(\$675,000)

Contained in this revenue category are the various **Fees and Charges** levied to recover costs of services by several City departments. The mid-year status of collections in over 150 different fee types in this category was reviewed.

Library – Overall, departmental fee revenue of \$423,000 was tracking slightly below anticipated levels through December because a portion of the Fines revenue collected between October and December will not be reflected in

the collection figures until January. Library revenues are projected to meet the budgeted estimate of \$1.3 million by year-end.

Parks, Recreation and Neighborhood Services (PRNS) – Through December, departmental fee revenue of \$5.0 million was tracking above anticipated levels and should meet or slightly exceed the budget estimate of \$8.0 million by year-end. A number of the fee categories were tracking slightly higher than projected, including the Animal Control

**2007-2008
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND REVENUES
(CONT'D.)**

**DEPARTMENTAL CHARGES
(CONT'D.)**

Services fees, activity charges for classes, and park revenues, including Happy Hollow. The Adult Sports category, however, was tracking slightly below expectations.

Planning, Building and Code Enforcement (PBCE) – Overall, planning fee revenues of \$3.7 million were tracking higher than anticipated at 59% of the budgeted estimate of \$6.3 million. This is approximately 25% above anticipated levels and well ahead of last year's \$2.5 million level. In line with the other development-related fee areas, the 2007-2008 estimate was built assuming a continuation of the activity levels of last year, with the higher fee levels approved by City Council.

Several revenue categories have performed better than anticipated in the first half of 2007-2008 and are either close to or have already exceeded annual budgeted estimates. In the Non-Residential category, these include Conventional Rezoning/Rezoning Permits, Planned Development Permits and Conditional Use Permits. In the Residential category, the Planned Development Permits also have almost achieved its 2007-2008 revenue estimate with six months remaining. These increases have been partially offset by lower than anticipated collections in the remaining categories, including annexations, environmental impact reports and tentative maps. Current projections indicate that collections may end the year above the budgeted estimate by as much as \$500,000. No adjustments are recommended at this time. This is a welcome sign for all development

partners as the Planning Fee Program begins the process for all development. The Budget Office, in conjunction with PBCE, will continue to analyze revenue levels to determine if any adjustments to the revenue estimate will be necessary before the end of the year.

Police – Through December, Police revenues of \$817,000 were tracking within estimated levels and are expected to meet the budget estimate of \$1.7 million by year-end.

Public Works – Departmental fee revenue of \$3.1 million through December represented a disappointing decrease of 14.9% from 2006-2007 levels. An increase of 9.9% to fees in this program was approved in the Adopted Budget. It now appears unlikely that year-end collections will meet the Adopted estimate of \$8.7 million. To reflect the lower collection level, a downward revision of \$675,000 to the revenue estimate is recommended in this document. This decrease is proposed to be offset by a corresponding reduction in the Public Works Development Fee Program personal services budget (\$205,000) and the Development Fee Program Earmarked Reserve (\$470,000). These actions are recommended to balance anticipated revenues with expenditures.

The majority of revenue categories in the Public Works Fee Program have performed at lower than anticipated levels through the first half of 2007-2008, including residential engineering, private streets engineering and inspection, electrical design, and non-residential materials

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

DEPARTMENTAL CHARGES
(CONT'D.)

testing. The poor performance in these categories has been partially offset by higher than anticipated collections in a few categories, including non-residential engineering, utility excavations, and planned development permits.

The department will continue to carefully manage all expenditures related to this program, while being mindful of performance, as the Public Works Development Fee Program Earmarked Reserve will only be left with \$450,000 if the recommendations included in this document are approved. Given the structural deficit that currently exists in this program, the availability of bridge funding in the fee reserve is critical. The Public Works Department will do everything possible to maintain this reserve as a means of balancing the program budget for 2008-2009, as the department works to implement a revised fee structure that will fully recover costs and improve cycle time performance.

The Budget Office, in conjunction with the Public Works Department, will continue to analyze revenue and expenditure levels to determine if any further adjustments to the

revenue estimate will be necessary. As by Council directive these are cost recovery fees, any revenue adjustment is accompanied by a corresponding adjustment in appropriations or in the fee reserve.

Transportation – Departmental fee revenue of \$438,000 through December is tracking slightly below projected levels due to lower development-related tree planting charges and residential signal design and review. If current collection trends continue, revenues may fall slightly below the budget estimate of \$1.0 million by the end of the year.

Miscellaneous Departmental Charges – This category includes the Solid Waste Enforcement Fee with a budgeted estimate of \$3.3 million, and other miscellaneous fees and legal settlement estimates budgeted at \$560,000. Through December, collections of \$2.2 million in this category are tracking within estimated levels. The Solid Waste Enforcement Fee receipts of \$1.9 million are tracking within budgeted levels and should come close to the budgeted estimate by year-end.

OTHER REVENUE

Revenue Status

2007-2008		2006-2007		2007-2008
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$22,505,433	\$11,320,611	50.3%	48.7%	\$298,000

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

OTHER REVENUE
(CONT'D.)

The Other Revenue category contains a number of unrelated revenue sources. Other Revenue collections through December of \$11.3 million are tracking within estimated levels.

Following is a discussion of the major sub-categories in the Other Revenue category:

In the current year, the City has received \$4.2 million in **HP Pavilion Rental, Parking, Suite, and Naming** revenue, which is slightly below the budget estimate of \$4.5 million due to lower than projected Arena Suite revenue.

FMC Land Lease revenue is received from the Airport in an amount sufficient to cover the debt service payments made from the General Fund. Through December, \$2.1 million of the \$5.5 million budgeted has been received.

Through December, \$1.2 million of the \$2.9 million budgeted revenue for the **Coyote Valley Specific Plan** has been received.

Banking Services revenue of \$365,000 tracked at 34.8% of the budgeted estimate of \$1.1 million. While this revenue category is tracking slightly below projected levels, any variance in this revenue would be offset by corresponding variance in related expenditures.

Sidewalk Repair Activity revenue is received when the City performs sidewalk repair services and the property owners reimburse the City for those costs. Through December, Sidewalk Repair revenue of \$168,000 was 42% of the adopted estimate. Activity in this category

typically increases in the second half of the year, but collections may still fall short of the budgeted estimate of \$400,000. Any shortfall, however, should be offset by lower expenditures.

No revenue estimate for **SB 90 Reimbursements** from the State for State-mandated programs was included in the 2007-2008 Adopted Budget based on the experience in recent years where the State discontinued many of these payments due to budget constraints. Actual collections through December totaled \$274,000.

Through December, revenue from the **Sale of Surplus Property** totaled less than \$2,000, which was well below the budget estimate of \$2.4 million. The revenue estimate was increased in December 2007 by \$2.3 million to reflect the sale of surplus City property located on Corte De Rosa and Camden Avenue. The General Fund proceeds from this sale were allocated to the Police Substation project. Based on information from the Public Works Department, it is currently anticipated that \$2.9 million will be received by the end of the year from the sale of City property.

As described in Section III of this report, the following actions are recommended to recognize revenue in this category:

- Increase of \$132,000 to recognize funding from other local jurisdictions for the Multi-Agency Capital Project Benchmarking Study.

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

OTHER REVENUE
(CONT'D.)

- Increase of \$100,000 to recognize funding from KB Homes for historic preservation activities.
- Increase of \$50,000 to recognize revenue received from the Coleman Airport Partners, LLC and Earthquakes Soccer, LLC per the executed Exclusive Negotiating Agreement (ENA) to cover any City costs incurred from the obligations of the ENA and for pre-development costs.
- Increase of \$11,000 to recognize AAA Greenlight Initiative Grant funds from the American Automobile Association (AAA) that will provide funding for green vehicle driver training and education outreach.
- Increase of \$5,000 to recognize funding from Pacific Gas and Electric to establish a PG&E CERT Grant to fund a Spanish-language trainer for the San José Prepared Program.

TRANSFERS AND REIMBURSEMENTS

Revenue Status				
2007-2008		2006-2007	2007-2008	
<u>Budget Estimate</u>	<u>Y.T.D. Actual</u>	<u>% of Estimate</u>	<u>% of Actual</u>	<u>Proposed Changes</u>
\$101,004,767	\$64,297,436	63.7%	49.2%	\$977,000

The following are sources of revenue in this category: reimbursements to the General Fund for **Overhead** costs, revenue received as **Transfers** from other City funds, and **Reimbursements** for services rendered.

Overhead Reimbursements – Overhead associated with operating and capital funds is currently budgeted at \$33.1 million. Net zero overhead adjustments are recommended to reflect the final 2007-2008 overhead amounts based on the Adopted Budget personal services

costs in the various special funds and a correction to the overhead rates for the Treatment Plant Operating Fund and the Water Utility Fund. Corresponding adjustments in each of the impacted funds are also recommended. These revisions to the special funds result in a net downward adjustment of \$29,000 to the General Fund overhead figure that is offset by an upward adjustment to the overhead associated with capital funds. The overhead for capital funds is based on actual capital expenditures and collections through

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND REVENUES
(CONT'D.)

TRANSFERS AND REIMBURSEMENTS
(CONT'D.)

December are tracking above estimated levels. If current trends continue, the overhead associated with capital funds is projected to exceed the budgeted estimate by over \$1 million.

Transfers – This category includes \$50 million in various transfers. Transfers of \$31 million through December were tracking within estimated levels and are expected to end the year at the budgeted level. Included in this report is an upward adjustment of \$977,000 to reflect the increased reimbursement from the Airport for additional Police overtime associated with the “Orange Alert” security level.

Reimbursements for Services – The budget estimate for this category is \$17.8 million, of which \$17.2 million is expected to be generated from the three **Gas Tax Funds**. Gas Tax collections of \$6.1 million tracked above the prior year level of \$4.5 million because the December receipts were booked this year but were not reflected last year due to the monthly closing schedule. Once this timing difference is taken into account, collections are tracking as anticipated. Collections in this category are expected to meet the budget estimate by year-end.

CONCLUSION

A comprehensive review of all General Fund revenue accounts was performed based upon receipts through the first six months of the year. As described, revenues were generally tracking at or slightly above projected levels and it is anticipated that total collections should end the year slightly above the budgeted estimate. Included in this document is a net downward adjustment of \$780,000 to the General Fund revenue estimates. This reflects an increase of \$1.9 million to recognize various grants and reimbursements offset by a decrease of \$2.7 million to the Building and Public Works development fee program revenues based on the lower actual collections.

The Preliminary 2009-2013 General Fund Forecast assumed that a total of \$24.6 million

would be available from excess revenues, expenditure savings and the liquidation of carryover encumbrances in 2007-2008 for use in 2008-2009. Consistent with this assumption, it is anticipated that additional upward adjustments to the revenue estimates will be possible by year-end and will account for a portion of the fund balance figure. The revenue estimates for this year will be updated as part of the final 2009-2013 General Fund Forecast due to be released in February and will serve as the starting point for developing the estimates for 2008-2009.

As always, staff will continue to closely monitor our current year financial status and report to the City Council any significant developments through the Bi-Monthly Financial Reports.

2007-2008 MID-YEAR BUDGET REVIEW

Section I

STATUS OF GENERAL FUND EXPENDITURES

Overview

General Fund expenditures through December totaled \$393.9 million. This represented an increase of \$39.1 million, or 11%, from the December 2006 level of \$354.8 million. Encumbrances totaling \$48.1 million were also \$8.8 million (22%) above the December 2006 level of \$39.3 million. Expenditures and encumbrances through December of \$442.0 million constituted 46.1% of the total 2007-2008 modified budgeted use of funds amount

(excluding reserves) of \$959.4 million. This was generally consistent with the 45.0% experienced in last year's budget at this time. Overall, expenditures are tracking as anticipated and are expected to end the year within budget.

The following chart displays the year-to-date expenditures (excluding encumbrances) compared to the prior year, by category.

**2007-2008 General Fund Expenditures through December
(\$ in Thousands)**

Category	Current Budget	Y.T.D. Actual	% of Budget	Prior Year % of Budget
Personal Services	614,720	281,802	45.8%	45.0%
Non-Personal/Equipment	108,942	33,731	31.0%	30.8%
Other Departmental	12,691	5,154	40.6%	39.1%
City-Wide Expenses	149,571	39,784	26.6%	24.0%
Capital Contributions	44,052	7,341	16.7%	15.7%
Transfers	29,443	26,133	88.8%	99.3%
Reserves	127,053	-	0.0%	0.0%
Total	1,086,472	393,945	36.3%	35.4%

Departmental Expenditures

Personal Services costs represent the largest single expense category for the City. These costs accounted for 71.5% of the expenditures to date. Through December, Personal Services expenditures for all City departments totaled 45.8% of the current modified budget, a slight increase from last year's level of 45.0%, and very close to the budgeted expectations of 45.9%.

Non-Personal/Equipment expenditures of \$33.7 million are also tracking within anticipated levels with 31.0% expended through December. In addition to the funds actually expended, \$27.0 million was encumbered, bringing the total amount of funding committed to \$60.7 million, or 55.7% of the budget. These expenditures are also expected to remain within budget for all departments.

**2007-2008
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Overview (Cont'd.)

Departmental Expenditures (Cont'd.)

The Other Departmental category includes the budget for the Mayor and City Council, Library Grants, and Parks, Recreation and Neighborhood Services Fee Activities. Other Departmental Expenditures totaled \$5.2 million or 40.6% of the budget. With encumbrances, the total amount committed increases slightly to \$5.5 million, or 43.0% of the budget.

Based on current trends, it is anticipated that all departments will remain within budget. There is an expectation that there will be some expenditure savings at the end of the fiscal year that will contribute to the Ending Fund Balance figure, which will be incorporated into the 2009-2013 General Fund Forecast.

Non-Departmental Expenditures

Through December, 26.6% of City-Wide Expenses budget of \$149.6 million has been expended. With encumbrances, however, the total amount of funding committed equals 36.7% of the budget.

Within City-Wide Expenses, the Community and Economic Development and Strategic Support City Service Area categories represent the largest portion of funding. For the first six months of the year, these two categories are 54.0% and 29.5% committed, respectively. The expenditure tracking for these City-Wide allocations can vary significantly depending on payment schedules and the timing of projects. In some instances, the appropriations will not be

fully expended by year-end because of the multi-year nature of some of these larger projects. Most of those savings will need to be rebudgeted to 2008-2009.

The Workers' Compensation Claims appropriation of \$17.9 million is a major component of the City-Wide Expenses - Strategic Support category. For the first half of the year, this appropriation tracked below budgeted levels. Only 36.4% of the appropriation was expended.

For several years now, Workers' Compensation Claims has experienced lower than budgeted expenditures, reflecting the impact of both City-initiated efforts and State-initiated program reforms. Based on projected activity, it is anticipated that this appropriation will have year-end savings.

General Liability Claims, another component of City-Wide Expenses, Strategic Support, is also tracking below budgeted levels during the first six months of the year. Only 14.3% of the appropriation has been expended or encumbered. Expenditures in this category are traditionally difficult to predict, though, given the nature of litigation. The Budget Office, in concert with the City Attorney's Office, will continue to monitor this appropriation as the year progresses.

Through December, the Sick Leave Payouts Upon Retirement allocation of \$13.7 million was only 14.0% expended. While expenditures

2007-2008 MID-YEAR BUDGET REVIEW

Section I

STATUS OF GENERAL FUND EXPENDITURES (CONT'D.)

Overview (Cont'd.)

Non-Departmental Expenditures (Cont'd.)

are expected to increase in the second half of the year, year-end savings in this appropriation are anticipated.

The remaining City-Wide Expenses categories, Environmental and Utility Services, Public Safety, Neighborhood Services, and Transportation and Aviation Services, tracked at 58.8%, 28.2%, 42.3%, and 42.1% committed, respectively, through December. The commitment in Environmental and Utility Services category appears high, but actually reflects only a timing issue – the IDC Garbage Disposal Fees is a contractual obligation with the City that tends to be paid at the beginning of the year. It is still anticipated that the expenditure items within Environmental and

Utility Services will end the year within budgeted levels.

Through December, General Fund Capital expenditures totaled \$7.3 million and encumbrances totaled \$5.5 million, bringing the amount committed to \$12.8 million, or 29.1% of the budget. It is anticipated that almost all of the budgeted amount will be expended or rebudgeted to 2008-2009 to complete various capital projects.

The Transfers category is 88.8% expended through December. Almost all of the transfers are processed at the beginning of the year. There are no expenditures in the Reserves category because expenditures cannot be charged directly to a reserve.

Discussion of Selected General Fund Departments and Major Variances

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2007-2008 Budget</u>	<u>Y.T.D. Actual</u>
Fire	\$152,017	\$74,550

Overall, expenditures for the Fire Department were tracking above estimated levels through December with 49.0% expended.

Personal Services expenditures of \$71.6 million were tracking higher than estimated (49.6% versus a par level of 45.9%) due to retroactive payouts resulting from the International

Association of Firefighters (IAFF) arbitration resolution. As part of the 2006-2007 Annual Report, the Fire Department's 2007-2008 personal services budget was increased by \$16.9 million to address the impact of salary adjustments on 2007-2008 costs. A Mid-Year Budget action is recommended in this document

2007-2008
MID-YEAR BUDGET REVIEW
Section I

STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)

Discussion of Selected General Fund Departments and Major Variances (Cont'd.)

to distribute the remaining \$10.4 million from the Salary Reserve to the Fire Department to complete the retroactive payouts for the period from 2005-2006 through 2006-2007. These actions will bring the personal services expenditures back within budgeted levels.

Through December, overtime expenditures were lower than projected with \$3.5 million expended (29.5%). The lower overtime expenditure level was due to a higher number of temporary positions occupied by recent academy graduates. These positions are available to fill in minimum staffing duty positions and prevent the need to call back personnel on overtime when absences or vacancies occur. Additionally, budgeted overtime activities, such as the Fire Engineer Academy and Special Operations training, have not yet occurred. At this time, the Fire Department expects that overtime expenditures at year-end will be lower than budgeted. Savings in this category, however, will be needed to offset projected higher expenditures in salaries and benefits associated with the overstrength positions that fill minimum staffing needs. On an overall basis, the Fire Department anticipates ending the year within the budgeted allocation for Personal Services expenditures.

Through December, the Fire Department had a total of 266 filled paramedics (172 front-line, 4 Supervisors, and 90 support). Of the 26 Firefighters that graduated from the January 2007 Academy in April 2007, 25 secured paramedic accreditation through October 2007. Of the 25 recruits that began the April 2007 Academy, 19 graduated in August 2007, with seven completing paramedic accreditation through December 2007. The remaining 12 Firefighters are expected to complete their paramedic accreditation by March 2008. A Firefighter-EMT Recruit Academy began in November 2007 with 30 Recruits. The Department projects it will have no problem maintaining the target staffing level of 154 front-line Firefighter Paramedics. The number of targeted front-line Firefighter Paramedics increased (from 147) for Fire Station 33 that came online in August 2007, and Fire Station 35 that came online in October 2007.

The Department's Non-Personal/Equipment budget of \$7.7 million was 55.8% expended or encumbered through December. The Department estimates that it will end the year within the budgeted allocation.

<p align="center">2007-2008 MID-YEAR BUDGET REVIEW Section I</p>

STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)

Discussion of Selected General Fund Departments and Major Variances (Cont'd.)

Expenditure Status (\$ in thousands)		
<u>Department</u>	<u>2007-2008 Budget</u>	<u>Y.T.D. Actual</u>
Police	\$285,451	\$125,785

On an overall basis, the Police Department expenditures are tracking close to estimated levels with 44.1% of the budget expended through December.

Personal Services expenditures of \$118.8 million tracked close to anticipated levels (45.6% compared to the par of 45.9%). Overtime expenditures of \$4.3 million through December tracked above anticipated levels with 54.8% expended. This was partially due to special summer events that occurred downtown and higher overtime use for homicide investigations. The largest portion of the higher overtime expenditures, however, was incurred for staffing the "high" security threat level, or "Orange Alert" advisory, issued by the Federal Department of Homeland Security at the Airport. Overtime expenditures through December related to the increased security threat level totaled \$450,000, with additional overtime of approximately \$527,000 projected in the second half of the year. To fund this higher expenditure level, an increase of \$977,000 to the Department's Personal Services Appropriation is recommended in this report, offset by a corresponding increase to the reimbursement to the General Fund from the Airport Maintenance and Operating Fund.

The Personal Services budget includes \$1.3 million that was rebudgeted from 2006-2007 to fund the Police Department's Sworn Hire Ahead program. An additional \$762,000 was rebudgeted as part of the 2006-2007 Annual Report for this program. Under the Sworn Hire Ahead program, the Police Department hires new Officers to fill vacant positions before the positions become vacant to allow for the lengthy training period. The goal is to have a "street ready" officer available within 90 days of a vacancy. The Budget Office will continue to work closely with the Police Department to monitor this program and the overall Personal Services expenditures to ensure expenditures are within approved appropriations by year-end.

To implement the Sworn Hire Ahead Program and to staff the new positions added in the 2007-2008 budget, the Police Department graduated 30 Police recruits from the July 2007 Academy, with the officers expected to be street-ready in April 2008. In addition, the Department hired 45 Police recruits for the January 2008 Recruit Academy, with officers expected to be street-ready in October 2008.

The compensatory time balance at the end of December 2007 was 242,051 hours for sworn

**2007-2008
MID-YEAR BUDGET REVIEW
Section I**

**STATUS OF GENERAL FUND EXPENDITURES
(CONT'D.)**

Discussion of Selected General Fund Departments and Major Variances (Cont'd.)

personnel. This represents a decrease of 3,773 hours (1.5%) from the November 2007 balance of 245,824, but an 11,940 hour increase (5.2%) compared to the December 2006 balance of 230,111. The increase in sworn compensatory time balances continues to be due to a number of factors including responses to specific types of crimes, such as homicides, which require immediate and intensive investigations, and the need to backfill for vacancies. The Department's sworn compensatory time reduction program for personnel with balances

over 240 hours is expected to limit growth for the next quarter; however, this area is a growing concern and staff will continue to monitor balances closely throughout the fiscal year.

A total of \$10.6 million (42.8%) of the Department's Non-Personal/Equipment budget was expended or encumbered through December. It is estimated that the Department will end the year within its allocation.

CONTINGENCY RESERVE

Through December, the General Fund Contingency Reserve was at \$30.4 million, up by \$1.3 million from the 2007-2008 Adopted Budget level of \$29.1 million. The following revisions to the Contingency Reserve were approved through December:

- A decrease of \$150,000 to support the completion of the Evergreen-East Hills Development Policy Update.
- An increase of \$1,264,843 to bring the Contingency Reserve to 3% of the budget based on the Annual Report actions.
- An increase of \$150,000 to restore the funding that was used to support the Evergreen-East Hills Development Policy Update.